MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2016 / 2017 SESSION

DEC5018 – MICROECONOMICS

(Diploma Students Only)

17 OCTOBER 2016
9.00 am – 11.00 am
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 15 pages only, with two sections.
2. Answer **ALL** questions for section **A** and **B**.
3. Answers for section **A** should be shaded on the OMR sheet.
4. For section **B**, please write your answers in the answer booklet.

SECTION A: MULTIPLE CHOICE QUESTIONS (each question carries 1 mark).

1. Economists point out that scarcity affects _____.

   A. neither the poor nor the rich
   B. the poor but not the rich
   C. the rich but not the poor
   D. both the poor and the rich

2. Which of the following **BEST** defines the subject of economics?

   A. The study of choices made to cope with scarcity.
   B. The science that studies unemployment, inflation, and economic stability.
   C. The art of making money.
   D. The study of choices that businesses make to maximize profit.

3. The following are the topics that illustrate tension between self-interest and social interest **EXCEPT** _____.

   A. globalization
   B. population
   C. climate change
   D. economic instability

4. When the government hires people to serve in the army, these people are no longer available to do other work. This choice illustrates the concept of _____.

   A. an incentive
   B. opportunity cost
   C. marginal benefit
   D. a social interest

5. Production efficiency occurs when production _____.

   A. is on the production possibilities frontier
   B. is at a point beyond the production possibilities frontier
   C. is on the production possibilities frontier or inside it
   D. is at any attainable point

Continued...

6. Which of the following statements regarding the production possibilities frontier is **TRUE**?

A. Points outside the frontier are attainable.
B. Points on the frontier are less efficient than points inside the frontier.
C. Points inside the frontier are attainable.
D. Any points are attainable regardless of the position.

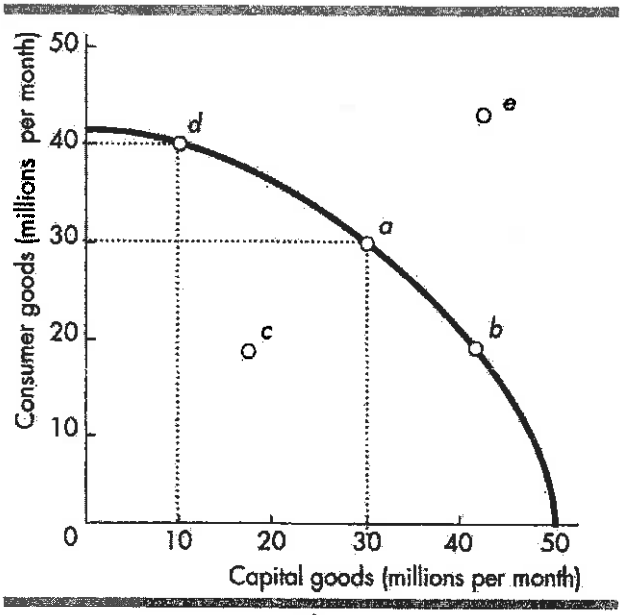

Figure 1.1

7. Based on the figure 1.1, which of the following is **TRUE** regarding marginal benefit?

I. The marginal benefit curve shows the benefit firms receive by producing another unit of a good.
II. Marginal benefit increases as more and more of a good is consumed.
III. Marginal benefit shows the maximum amount a person is willing to pay to obtain additional unit of a good.

A. I and II.
B. I and III.
C. II and III.
D. III only.

Continued...

8. Marginal costs will eventually _____.

A. increases as more is produced
B. remains constant as more is produced
C. decreases as more is produced
D. decreases as marginal benefits decrease

9. A relative price is _____.

A. when you get paid for babysitting your cousin
B. a price expressed in terms of money
C. equal to a money price
D. the ratio of one money price to another

10. The quantity demanded is _____.

A. the amount of a good that consumers plan to purchase at a particular price
B. always equal to the equilibrium quantity
C. independent of the price of the good
D. independent of consumers' buying plans

11. The law of demand most directly means that consumers buy _____.

A. inversely related to its price
B. directly related to its price
C. positively related to its price
D. directly related to the supply of the good

12. The observation that the demand curve for grape jam shifts rightward every time the price of peanut butter falls means that grape jam and peanut butter are _____.

A. substitute goods
B. inferior goods
C. normal goods
D. complementary goods

13. If the absolute value of the price elasticity of demand is between 0 to 1, demand is _____.

A. elastic
B. inelastic
C. unit elastic
D. perfectly elastic

Continued...

14. The price elasticity of demand for furniture is estimated at 1.3. This value means a one percent increase in the_____.

A. price of furniture will increase the quantity of furniture demanded by 1.3 percent
B. quantity of furniture demanded will decrease the price of furniture by 1.3 percent
C. price of furniture will decrease the quantity of furniture demanded by 1.3 percent
D. quantity of furniture demanded will increase the price of furniture by 1.3 percent

15. A rise in the price of oil from RM70 a barrel to RM80 a barrel and reduces the quantity demanded from 40 million to 38 million barrels a day. You can conclude that the _____.

A. demand for oil is elastic
B. demand for oil is inelastic
C. supply of oil is elastic
D. supply of oil is inelastic

16. When consumption of a good increases, marginal utility will eventually _____.

A. increase
B. remain unchanged
C. decrease
D. approach total utility

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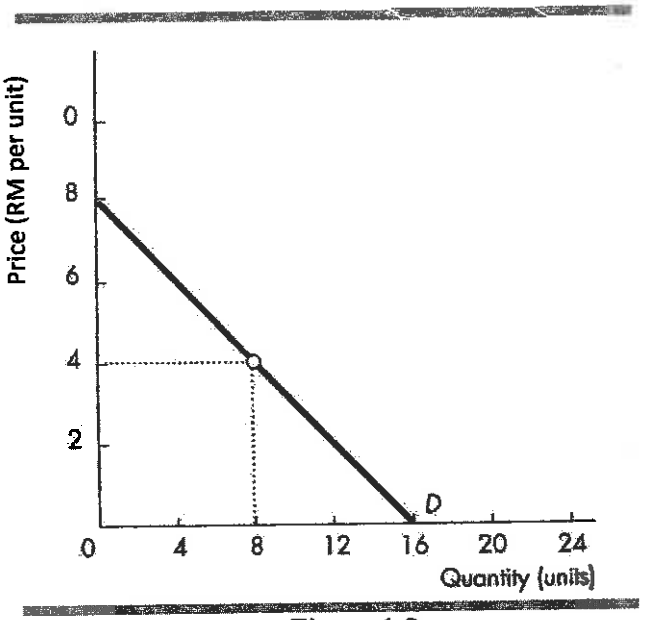

Figure 1.2

17. Figure 1.2 shows a straight-line demand curve. At a price of RM6, demand is _____.

A. elastic
B. inelastic
C. unit elastic
D. no changes to the elasticity

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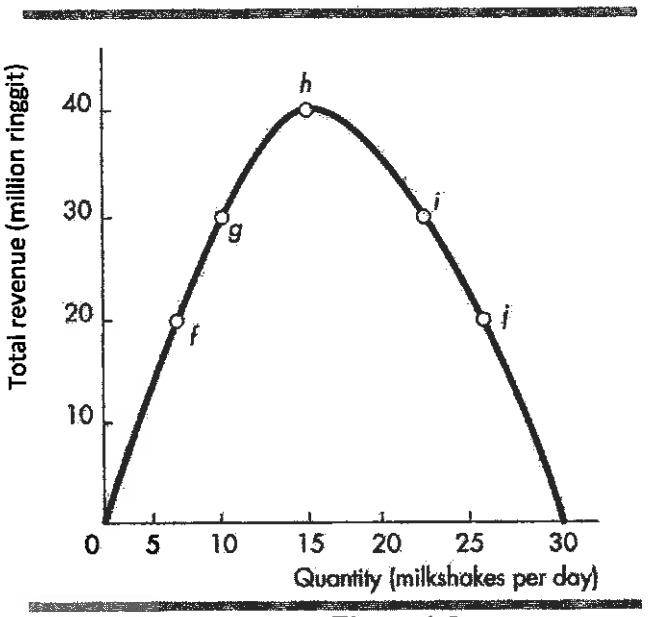

Figure 1.3

18. Figure 1.3 above represents the behavior of total revenue as price falls along a straight-line demand curve. What is the price elasticity of demand if total revenue is given by point *f*?

    A. Demand is elastic.
    B. Demand is unit elastic.
    C. Demand inelastic.
    D. No changes.

19. As you consume more and more of any good, you will eventually experienced _____ utility.

    A. increasing marginal
    B. negative marginal
    C. diminishing marginal
    D. diminishing total

20. "Households want to consume more goods and services than they currently consume."
    This households' consumption choice are limited by_____.

    A. price and income
    B. price and preferences
    C. income and preferences
    D. prices, preferences, and demand

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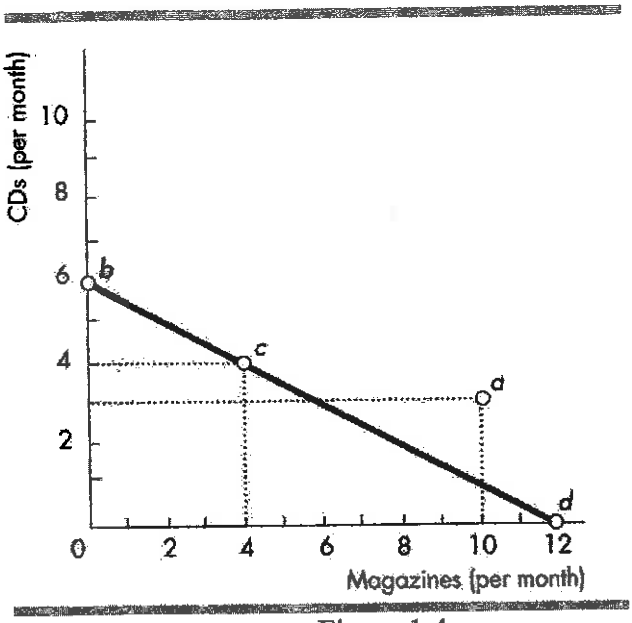

Figure 1.4

21. The figure 1.4 above shows a budget line between CDs and magazines. Which combination of CDs and magazines is **NOT** affordable?

A. Combination *b*.
B. Combination *a*.
C. Combination *c*.
D. Combination *b*.

22. Indifference curves are drawn on a diagram with the _____.

A. price of good A on the vertical axis and its quantity on the horizontal axis
B. price of good A on the vertical axis and the price of good B on the horizontal axis
C. quantity of good A on the vertical axis and the quantity of good B on the horizontal axis
D. quantity of good A on the vertical axis and its price on the horizontal axis

23. In the short run, the average total cost curve eventually slopes upwards because of the _____.

A. law of diminishing returns
B. reductions in average fixed costs
C. increase in capital costs
D. decrease in labor costs

Continued...

24. Which of the following is/are part of a firm's opportunity costs?

I. Costs for resources bought in markets.
II. Costs for resources the firm owns.
III. Costs for resources supplied by the owner.

A. I and II.
B. I and III.
C. I only.
D. I, II and III.

25. Dalilah Pastry's total revenue for a month is RM4,000. The monthly costs of resources bought in the market and of resources owned by the firm are RM2,000. The monthly costs of resources supplied by the owner are RM1,000. The company's economic profit for the month is equal to _____.

A. RM4,000
B. RM3,000
C. RM1,000
D. RM980

26. Which of the following statements is **CORRECT**?

A. Technological efficiency depends on the relative costs of resources.
B. Economic efficiency occurs when the firm produces a given output at the least cost.
C. A firm can be economically efficient without being technologically efficient.
D. Economic efficiency depends only on production methods.

27. A period of time in which the quantity of at least one factor of production used by a firm is fixed is called the _____.

A. short run
B. market period
C. intermediate run
D. long run.

28. Total cost is equal to _____.

A. sum of the average fixed cost and the average variable cost
B. difference between the average variable cost and the average fixed cost
C. product of the marginal cost multiplied by the average total cost
D. sum of the total fixed cost and the total variable cost

Continued...

29. Which of the following is characteristic of the long run period?

A. All factors of production can be varied.
B. It must exceed 6 months in length.
C. The firm's plant is fixed.
D. All variables are fixed.

30. If Din Computer Company could produce more computers at lower long-run average cost by increasing the quantity of all the inputs it uses, Din definitely would experience _____.

A. decreasing marginal returns
B. economies of scale
C. diseconomies of scale
D. increasing marginal returns

31. Economies of scale refer to _____.

A. the point at which marginal cost equals average cost
B. the fact that in the long run, fixed costs remain constant as output increases
C. the range of output over which the long-run average cost falls as output increases
D. a feature of short-run production functions but not long-run production functions

32. A firm is currently producing at an output level when its marginal revenue is more than marginal cost. If the firm wants to increase its profit, it should _____.

A. increase its output
B. decrease its output
C. keep its output the same
D. stop the production

33. When a firm is considered to be a "price taker" that means the firm _____.

A. can charge any price that it wants to charge, that is, 'price taker'
B. pays a fixed price for all of its inputs
C. will accept the lowest price that its customers offered
D. cannot influence the market price of the good it sells

Continued...

34. Which of the following determines the market price in a perfectly competitive industry?

A. Market demand and a firm's supply.
B. Market supply and a firm's demand.
C. Market demand and market supply.
D. A firm's demand and its supply.

35. In a perfectly competitive industry, the demand for a single firm's product is _____.

A. perfectly elastic
B. perfectly inelastic
C. as elastic as the market demand
D. inelastic, but not perfectly inelastic

36. If a perfectly competitive firm finds that it is producing an amount of output such that MR >MC and P>AVC, it will _____.

A. leave the industry
B. decrease its output
C. not change its behavior
D. increase its output

37. Which of the following firms is **MOST LIKELY** to be a monopoly?

A. Local restaurant.
B. Local distributor of water supply.
C. Local book store.
D. Clothing store.

38. The smallest quantity of output at which long-run average cost is at a minimum is a firm's _____.

A. maximum efficient scale
B. profit maximizing output point
C. efficient output point
D. minimum efficient scale

Continued...

39. Which of the followings can create a monopoly?

I. High prices.
II. Public franchise.
III. Patent.
IV. Government license.

A. I and II.
B. I and III.
C. I, II, and III.
D. II, III, and IV.

40. A product that is a close substitute but not a perfect substitute for the products of the other firms is called _____.

A. a homogeneous product
B. a differentiated product
C. an efficient product
D. an inelastic product

41. Firms in monopolistic competition can achieve product differentiation by _____.

A. expanding plant size
B. exploiting economies of scale in production
C. advertising special characteristics
D. setting the price equal to average revenue

42. Which of the following firms are in a monopolistically competitive market?

A. Firms in monopolistic competition produce identical products just as do firms in perfect competition.
B. Monopolistic competition market only has few firms, unlike firms in perfect competition.
C. Advertising plays a large role in monopolistic competition, unlike in perfect competition.
D. Firms in monopolistic competition are price takers just as is the case for firms in perfect competition.

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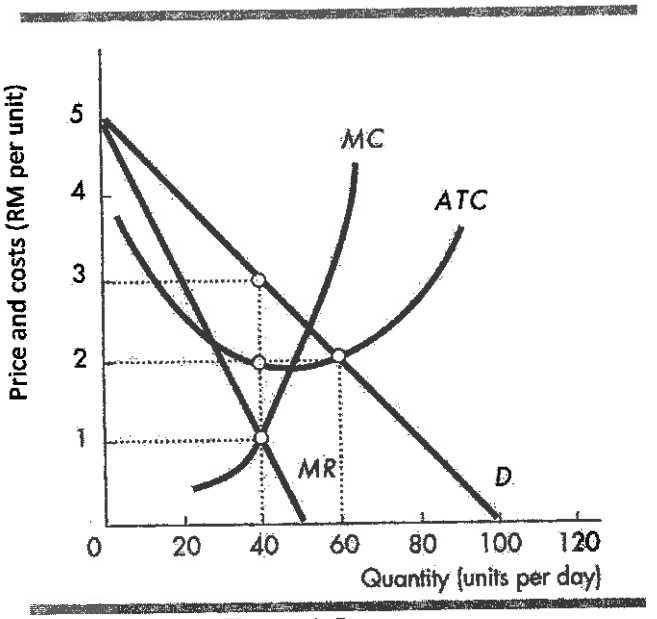

Figure 1.5

43. In the above figure 1.5, if the firm is in monopolistic competition, it will produce _____.

A. 40 units
B. 60 units
C. between 61 and 99 units
D. 100 units

44. Which of the following defines the characteristic of oligopoly?

A. selling a homogeneous good.
B. selling a differentiated good.
C. collusion.
D. barriers to entry.

45. The difference between oligopoly and monopolistic competition is that _____.

A. fewer firms compete in oligopoly than in monopolistic competition
B. monopolistic competition has barriers to entry
C. in monopolistic competition, the products are identical
D. a monopolistically competitive industry has fewer firms

Continued...

46. Consider a market in which each firm must predict the price and quantity of other firms, as well as how those price and quantity decisions will affect the firm's revenue and profit. This market is best described as _____.

A. monopolistic competition
B. a monopoly
C. an oligopoly
D. perfect competition

47. In a prisoners' dilemma game, which of the following strategies gives the best outcome for **BOTH** prisoners?

A. Both confess (not collude).
B. Both deny (collusion).
C. One confess while the other denies.
D. No one confess.

48. Consider the demand for labor in the computer chip industry. The demand curve for labor _____.

A. is shown by a perfectly elastic demand for labor
B. is derived from the demand for computer chips
C. is shown by a perfectly inelastic demand for labor
D. is backward bending

49. If the value of marginal product of a factor of production exceeds the price of the factor the _____.

A. firm should hire less of that factor
B. firm is maximizing profits
C. firm should hire more of that factor
D. firm should shut down

50. Profit is the factor price for _____.

A. capital
B. labor
C. land
D. entrepreneurship

[TOTAL 50 MARKS]

Continued...

SECTION B: STRUCTURED QUESTIONS

QUESTION 1

a) State whether each of the following issues is microeconomics or macroeconomics. Justify your answer. (10 marks)

i. The changes of unemployment rate in Japan from 3% to 5%.
ii. The factors that influence individual's utility from the consumption of ice cream.
iii. The calculation of Gross Domestic Product (GDP).
iv. The competition between Maxis and Digi in telecommunication industry.
v. The *Great Depression.*

b) Differentiate and provide example for each statement between positive statement and a normative statement. (4 marks)

QUESTION 2

Possibility	Fish (pounds)	Fruit (pounds)
A	0	36
B	4	31
C	8	26
D	11	22
E	13	18
F	15	11
G	18	0

Exhibit 1

a) Exhibit 1 illustrates the possible production which Elsa can get from fishing and picking fruit respectively if she spent all her available hours on these activities.

i. Plot a graph for Elsa's PPF. (9 marks)

ii. Based on Exhibit 1, identify which combinations are attainable or unattainable, if:
I. 11 fishes and 18 fruits (1 mark)
II. 3 fishes and 30 fruits (1 mark)
III. 22 fishes and 22 fruits (1 mark)

iii. If Elsa increases her production of fruits from 22 pounds to 26 pounds and at the same time decreases her production of fishes from 11 pounds to 8 pounds. What is her opportunity cost of a pound of fruit? (2 marks)

Continued...

iv. Define production efficiency. (1 mark)

QUESTION 3

a) There are three factors influencing the price elasticity of demand. Explain. (6 marks)
   i. Closeness of substitutes
   ii. The proportion of income spent on the good
   iii. The time elapsed since a price change

b) Define the price elasticity of supply. (1 mark)

c) The heavy rainfall in monsoon season destroys the strawberry crop at Cameron Highland, therefore the price of strawberry rises from RM4 to RM6 per box, and the quantity demanded decreases from 1,000 to 600 boxes per week.
   i. Calculate the price elasticity of demand over this price range. (2 marks)
   ii. Explain the price elasticity of demand for strawberries from answer (c)(i). (2 marks)

QUESTION 4

a) In economic studies, economists found out there are four type of market structures. Every market has their unique characteristics and operate in different kind of market environment.
List and explain **AT LEAST TWO** characteristics with **example** for each market structure. (10 marks)

[TOTAL 50 MARKS]

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